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Policy debates and controversies

The human dimension of good economic policymaking[☆]Ian R. Harper AO^{*}, Andrew Ramadge

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ABSTRACT

Good economic policymaking requires the best possible economic advice. To be an effective adviser, a policy economist needs to remain credible, even under pressure. There is a gap between theory and reality; minding the gap can help policy economists determine which theories are more likely to work as a matter of practical policymaking. Adding the human dimension makes for better decisions by casting light on how people might respond to otherwise rational policy proposals. It is not sufficient for good policy outcomes that economists confer only with their professional peers. Citizens must be persuaded that the proposed policy reform is in the best interests of the community as a whole. Good economic policymaking should not underestimate the power of incentives to override moral and ethical restraint. Regulation is a poor substitute for culturally-embedded moral restraint. While it is possible to divorce the mechanical side of economics from its moral foundations, this is not the route to good economic policymaking.

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1. Giving good advice

Good economic policymaking requires the best possible economic advice. The reason why economists put so much effort into their policy advice is that they know the policies eventually adopted will affect people's lives, for better or worse. Economic policies cannot be guaranteed to improve people's lives, even if they are faithfully implemented by governments. But when people's material living standards are at stake, it focuses the mind of a good policy economist on giving the best possible economic advice – or at least it ought to. Economists of the immediate post-WWII generation, such as Ted Evans, instinctively knew this. Perhaps it was the hardship of war that was too raw in their experience to overlook. But it seemed obvious to them – more so, perhaps, than to later generations of economists – that the end result of good economic policy advice has an all-too-human face.

Often the advice economists give is unpopular, either with their political masters or the public or both. This is where the concept of giving good advice, in and out of season, comes to the fore. When delivering advice to a politician, the response can sometimes be blunt: “This is the advice you're giving me? It's all very well for you but you're not the one who has to face the public”. Economists, however, are not elected officials. Their job is to give their best advice to the

[☆] This article reflects a conversation between Ramadge, a professional journalist, and Harper, a professional economist, on what constitutes good economic policymaking. Harper's experience covers practical engagement in the process of economic policymaking as well as academic reflection on what makes good economic policy more or less acceptable to those it aims to benefit. It draws on Harper's Ted Evans Public Policy Lecture delivered by webinar on 27 August 2020. The Ted Evans Public Policy Lecture is a joint initiative of the Economic Society of Australia (Qld), the University of Queensland, Queensland University of Technology and Griffith University. The annual lecture recognises Ted Evans' AC remarkable contribution to good public policy in Australia.

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people who make the decisions, even if it might not be popular on a given day — or even more challenging, require those same decision-makers to take a principled stand. It is important to resist being pushed one way or the other when there are good grounds for holding to a point of view. The best decisions are made by those who can clearly see the arguments for and against a certain course of action. Putting forward a strong and well-considered point of view gives opponents something to push against — it encourages them to double-check their assumptions and consider a wider range of potential outcomes. The result is that more and better information is brought to the decision.

2. Remaining credible

To be an effective adviser, a policy economist needs to remain credible, even under pressure.

When setting minimum wages as Chair of the former Australian Fair Pay Commission in the mid-1990s, Harper was left in no doubt about the then government's view of the matter, thanks to a phone call from the responsible minister's chief of staff. There was no direction from the Minister but a strong reinforcement of the views already put to the Commission in writing. Harper indicated that he was as pleased to hear the government's views as he was those of any other interested party. He also cited the independence of the Commission from government. In this instance, the decision was probably not what the Minister had hoped for. In other instances, the opposite was more likely true. In the latter case, it is even more important for economists to safeguard the independence of their advice. If economic advice appears to be convenient for government, economists can expect more questions than usual from journalists and sceptical members of the public.

Timing and context are all important in delivering economic advice. Failure to consider the context in which advice will be received risks the advisor being ignored, simply for bad timing's sake and not for any demerit of the proffered advice. The goal is to be tactful and sensible enough to have some influence, without ever pandering to expediency.

In the modern world, most calculations can be done by a machine. Where machines are not yet sophisticated enough to handle more qualitative problems, people generally believe they soon will be. Decisionmakers on the Board of the Reserve Bank of Australia benefit from computer analysis of the optimal level of the cash interest rate. An obvious question to ask is why the Board deliberates on setting the level of the cash rate each month rather than allowing it to be set automatically by computer? The answer is that computers — for the time being at least — are not sophisticated enough to apply human judgement to a range of considerations that cannot be quantified. The numbers need to be tested against people's experience and emotions — they need to be credible.

There is also a question of legitimacy in the eyes of the public, who are asked to have confidence in the dispassionate and unbiased nature of the decision-making process. It is easier to hold people to account publicly for their perceived biases and conflicts of interest than it is to hold machines to account, whose “algorithmic bias” may be harder to expose. Yet another reason is the Bank's charter. Section 10(2) of the Reserve Bank Act ([Reserve Bank Act, 1959](#)) requires the Board to exercise its powers so as best to contribute to the stability of the currency, the maintenance of full employment and a third objective, which is sometimes overlooked: “the economic prosperity and welfare of the people of Australia”. How could a machine calculate such a subjective notion? Indeed, economic theory concludes that the attempt to calculate cardinal measures of economic welfare is a fraught exercise. The Act points the way forward when it specifies that the assessment of what best contributes to economic prosperity and welfare is “in the opinion of the Board”. In the end, it is human judgement, and not the numbers alone, that matters.

During the policy response to the COVID-19 pandemic, the Bank took monetary policy into unconventional territory. Even the trained economists on the Board, including Harper, had never seen such circumstances before. The Board's decisions focused on the third objective of securing the economic prosperity and welfare of the Australian people, given that the chances of meeting the Bank's inflation target and the associated level of unemployment were remote in the near term. In such circumstances, the human judgement of Board members, as informed by expert advisers, drove economic policymaking. The key ingredients were: the most reliable and most timely data that could be brought to bear; the willingness of experts to canvass a range of policy options and offer a dispassionate assessment of their respective strengths and weaknesses; and time to deliberate on the essential issues and resolve a course of action.

3. Balancing winners and losers

Economists know that almost every change in public policy produces both winners and losers. The opportunity for everyone to be made better off, and nobody worse off, is extremely rare. For the most part, economists look for policies that result in a net gain for the community, in which the losers can be fairly compensated. But what the numbers do not reveal are the myriad ways in which people can be affected by public policy decisions, some of which have little to do with dollars and cents.

Harper served as Chair of the Metropolitan Hospitals Planning Board (MHPB), a committee set up in the mid-1990s to review Melbourne's public hospital network. Among other things, this Board recommended to the Kennett Government that the former infectious diseases hospital at Fairfield be closed, advice the Government subsequently accepted ([Metropolitan Hospitals Planning Board, 1995](#)). This hospital had been established in the 1920s to deal with the aftermath of the Spanish flu epidemic and saw service over subsequent decades in dealing with outbreaks of diphtheria, poliomyelitis and, more recently, HIV/AIDS. The recommendation to close Fairfield Hospital reflected medical advice that infectious diseases are most effectively treated in isolated wards of tertiary hospitals and not in dedicated facilities.

The reason is that complications arising from an infectious disease require the attention of specialist physicians more commonly found in general hospitals.

The strongest objections to closing the hospital came from people who had been diagnosed with HIV/AIDS, or whose loved ones had been. This was in the mid-1990s, before effective treatments for HIV were widespread. These patients were being cared for at the Fairfield Hospital right up to the end of their lives. Those who objected fully accepted that better treatment might be available in a general hospital setting and that a separate infectious diseases hospital was no longer necessary or desirable. Their objection to closing Fairfield was that the ashes of their deceased loved ones had been buried in the hospital's memorial garden. As soon as it was clear that people's dignity and privacy could be respected by relocating the memorial garden in an acceptable way, objections to the hospital's closure fell away. A recommendation to make such arrangements was included in the final report as part of the wider proposal to close the hospital.

The MHPB had not been asked to advise the government on relocating memorial gardens but on hospital efficiency, based on data and economic analysis. There is a gap between theory and reality, and in that gap even the best ideas come up against what it means to be human. In this case, the friction between theory and the real world had nothing to do with economics — it was about human compassion. Understanding that difference can help economists determine which theories are more likely to work as a matter of practical policymaking.

The goal of good economic policy is to improve the welfare of the community. It is therefore essential to understand how dimensions of policy outcomes beyond the narrowly material are likely to affect how people respond — especially what they are likely to say to their governments. Looking at the data alone yields a black-and-white view of the situation; once the human dimension is added, things quickly change to technicolour. Nuances come into focus that might not have been appreciated before. Adding the human dimension makes for better decisions — although it is important not to go too far down this path. In the final analysis, it will still be the data that tell the story, not anecdotal evidence let alone outbursts of emotion. Adding the human dimension casts light on how people are likely to respond, at least initially, to otherwise rational policy proposals.

The 2015 Competition Policy Review held more than 150 public meetings to discuss the impact of various proposals that were under consideration ([Competition Policy Review, 2015](#)). These meetings were not where the rigorous economic analysis and intellectual debate occurred. Their purpose was to assure the community that the Review panel sought to understand the human consequences of various options for reform. Harper recalls that, at one of these meetings, the owner of a small family supermarket complained about the impact the big chains were having on her business. Asked if she wanted the Review to recommend to the government that it pass a law forbidding Coles and Woolworths from opening stores near smaller supermarkets like hers, she replied: “No, I can't ask you to do that. I just want you to sit there and hear me say *it sucks*”. This phrase might not appear in any economics textbook but it expresses how policy often translates into the lives of ordinary people.

It is not sufficient for good policy outcomes that economists confer only with their professional peers, no matter how smart or talented or dedicated they are. Citizens must be persuaded that the proposed policy reform is in the best interests of the community as a whole, even if it results in negative outcomes for some people. How is this done? Those likely to be affected by a policy reform must be included in the discussion and their concerns taken seriously. This is the human dimension of good economic policymaking.

The ascendancy of social media makes the human approach even more important. How easy is it to demonise policy proposals and their advocates in a social media campaign where people never actually meet face-to-face or even via Zoom? How much easier is it to publish an inflammatory tweet than to stand up in a public meeting (even a virtual public meeting) and address people directly with concerns or objections?

The Australian Fair Pay Commission regularly met and interviewed unemployed and low-paid people to better inform itself about their circumstances and options. The Commissioners learned a great deal about hardship and the dignity of people's lives. As Chairman, Harper was occasionally attacked in the media for being out of touch with the life experience of the low-paid and unemployed. Relaying lessons learned from these interviews soon silenced the critics.

4. The moral dimension

Even though modern economics developed from a foundation in moral philosophy, its evolution into a social science in the twentieth century saw the discipline drift away from its ethical moorings. Modern economics holds itself out as “value-free” and objective. People are assumed to have preferences but how those preferences are formed and whether they are moral or not are no longer questions addressed by economists. Economists remember and admire Adam Smith's “Wealth of Nations” ([Smith, 1981/1776](#)) but seem to have forgotten his equally influential “Theory of Moral Sentiments” ([Smith, 2007/1759](#)). Even though economists prefer to stick with objective analysis and eschew moral judgements, most other people do not. It might occur to economists to describe certain behaviour as rational but most other people prefer to describe it as simply wrong.

To put matters differently, Adam Smith's admiration of market exchange as an engine of the “wealth of nations” did not preclude him from condemning certain market outcomes as immoral — for example, anti-competitive market conduct, which he described as a “conspiracy against the public”; rising income inequality, which he lamented as releasing the rich from the need to behave morally in order to earn the esteem of others; and even the specialisation of labour in production, which he recognised could lead production-line workers to “become as stupid and ignorant as it is possible

for a human creature to become” (Özler and Gabrinetti, 2015, pp. 27–29). Indeed, Smith seemed to be more clear-sighted about the limitations of commerce – or the need for foundations of justice and morality to restrain otherwise unrestrained commercial activity – than many of his modern disciples.

Economists can often be shocked, or at least surprised, when deregulating markets gives rise to immoral, albeit efficient, outcomes. Harper counts himself among those policymakers who expected more of deregulated markets only to be disappointed. Having championed disclosure as a strong deterrent of unethical behaviour in financial markets as a member of the Wallis Inquiry (Financial System Inquiry, 1996) in the mid-1990s, Harper was dismayed to witness the litany of shameful behaviour uncovered by the Hayne Royal Commission (Hayne, 2019). Deeper thought about the need for strong ethical foundations – what Justice Hayne referred to as “values and culture” – might have led Harper to be more circumspect about the need for ongoing regulation in financial markets.

Good economic policymaking should not underestimate the power of incentives to override moral and ethical restraint. Or, perhaps more to the point, it should not assume that moral or ethical restraint will temper economic incentives without first enquiring whether such restraint is embedded in values and culture. Regulation is a poor substitute for culturally-embedded moral restraint. But when the latter is non-existent, regulation may be necessary to secure the public interest against the worst excesses of self-serving behaviour by those in positions of trust.

It should come as no surprise that economists might worry about the human dimension of their craft. Social science it may be, but economics started out as moral philosophy. Economists’ quest to raise community welfare cannot be divorced from their discipline’s foundation in a moral calculus. While it is certainly possible to divorce the mechanical side of economics from its moral foundations, this is not the route to good economic policymaking. If the aim is to improve people’s lives, economic policymakers should place the human dimension of economic policymaking at the heart of everything they do.

Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that could appear to have inappropriately influenced the work reported in this paper.

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